Attorney General Steve Marshall Announces $2.3 Million in Debt Relief for Eligible Former ITT Students in Alabama from National Settlement with Loan Company

(MONTGOMERY) — Attorney General Steve Marshall announced today that approximately 289 former Alabama students of ITT Technical Institute will receive $2.3 million in debt relief as part of a national multi-state settlement with the loan company Student CU Connect CUSO LLC, known as CUSO. The defunct for-profit college had schools in Madison, Bessemer and Mobile as well as those in other states.

Nationally, the settlement will result in debt relief of more than $168 million for more than 18,000 former ITT students. CUSO provided loans to finance students’ tuition at ITT, which suddenly closed in April of 2016. ITT filed for bankruptcy later that year amid investigations by state Attorneys General and following action by the U.S. Department of Education to restrict ITT’s access to federal student aid. The CUSO Loan program originated approximately $189 million in student loans to ITT students between 2009 and 2011.

Under threat of litigation, CUSO agreed in the settlement that it will forego collection of outstanding loans. The affected former students are those who still have outstanding debt from loans with CUSO. They will receive formal notice from CUSO’s loan servicer and do not need to take any action. Their debt will be immediately vacated and any automatic payments will be cancelled. CUSO will notify credit reporting agencies of this action for updating their records. CUSO, which was organized for the sole purpose of providing the ITT loans, will also cease doing business.

“The manner in which students were strong-armed into taking out loans with this company and the misleading information they received is outrageous,” said Attorney General Marshall. “CUSO now is being held to account for its participation with ITT in subjecting ITT students to abusive lending practices. I am pleased that this settlement brings relief to those in Alabama and throughout the nation who were victimized through the disgraceful actions of CUSO and of ITT.”

The Attorneys General allege that ITT, with CUSO’s knowledge, offered students Temporary Credit (TC) upon enrollment to cover the gap in tuition between federal student aid and the full cost of the education. What students were not told was that this TC would come due for repayment before the student’s next academic year, although ITT and CUSO knew or should have known that most students would not be able to repay the TC at that time. Many students thought the TC was like a federal loan and would not be due until six months after they graduated.

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Making matters worse, when the TC became due, ITT pressured and coerced students into accepting loans from CUSO, which for many students carried high interest rates, far above rates for federal loans. Pressure tactics used by ITT included pulling students out of class and threatening to expel them if they did not accept the loan terms. Students were left with the choice of dropping out and losing any benefit of the credits they had earned because ITT’s credits would not transfer to most other schools. Therefore, most students enrolled in the CUSO loans.

Neither ITT nor CUSO made students aware of what the true cost of repayment for the TC would be until after the credit was converted to a loan. Not surprisingly, the default rate on the CUSO loans was extremely high (projected to exceed 90 percent) due to both the high cost of the loans as well as the lack of success ITT graduates had getting jobs that earned enough to make repayment feasible. The defaulted loans continue to affect students’ credit ratings and are usually not dischargeable in bankruptcy.

In addition to Alabama, this settlement was joined by 42 other states and the District of Columbia. A related settlement between the CUSO and the U.S. Bankruptcy Trustee was approved on June 14. The settlement by the Attorneys General also is contingent on federal court approval of a related settlement between the CUSO and the federal Consumer Financial Protection Bureau.

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